



STATE OF WISCONSIN
Department of Employee Trust Funds
Eric O. Stanchfield
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax (608) 267-4549
TTY (608) 267-0676
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: March 26, 2004
TO: Employee Trust Funds Board
FROM: Marcia Blumer, Program Manager
Employee Reimbursement Accounts (ERA) program
SUBJECT: Employee Reimbursement Accounts (ERA) program and Commuter Benefits

The following is a brief update of the Employee Reimbursement Accounts (ERA) program and the Commuter Benefits program. **No Board action is required.**

Annual ERA Enrollment Results

The recently completed enrollment period for the 2004 ERA plan year resulted in a significant increase in participation and contributions. The total number of employees enrolled in the ERA program increased by over 15% to about 11,961 participants. Approximately 2,119 employees are enrolled in the dependent care reimbursement account component, an increase of over 5.5%. The projected annual contributions to dependent care accounts increased by almost 9% to approximately \$8,135,871.

The largest increase in participation was realized in the medical expense reimbursement account component. Approximately 11,155 employees enrolled in the medical expense component, which is an increase of almost 18%. The medical expense account contributions increased by over 29% to a projected total of \$13,629,180. This large increase can be attributed to higher drug copays and out-of-pocket expenses, as well as the recent approval by the IRS to reimburse certain over-the-counter medications through the medical expense accounts.

Internet enrollment continues to increase in popularity with over 76% using the internet for enrollment. Although the open enrollment period was extended two extra weeks to November 21, 2003, over 380 late enrollments and almost 150 account changes were accepted after that deadline to accommodate employees whose drug coverage was changing due to implementation of the pharmacy benefit manager plan under Navitus.

Contributions to the ERA program results in savings of State, Federal, and FICA taxes for participating employees. The State will also realize FICA savings on participant contributions to the reimbursement accounts of approximately \$1,665,026.

Reviewed and approved by Tom Korpady,
Administrator, Division of Insurance Services.

Signature

Date

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Commuter Benefits Program Update

Participation in the Commuter Benefits program, which was implemented in 2002, currently stands at 1,328. Contributions average around \$9,260 each month. Similar to the ERA program, participating employees save on State, Federal and FICA taxes while employers realize a FICA savings.

When the Commuter Benefits program was implemented, Fringe Benefits Management Company (FBMC) contracted with WageWorks, a provider of commuter tax benefits nationwide, to use their system to administer the Commuter Benefits program. The WageWorks system is used for three components—direct payment to parking facilities, purchase and distribution of bus passes to employees, and direct reimbursement of transportation expenses (also called “Pay-Me-Back”).

The direct pay parking and bus pass components have both worked very smoothly. The “Pay-Me-Back” component, however, has experienced problems. In the last year FBMC has worked with WageWorks to identify the source of the problems and correct them. WageWorks has become increasingly unresponsive to the point where FBMC is opting to terminate their contract.

Attached is a letter from FBMC explaining their course of action with regard to the termination of WageWorks and the plans for providing service in the future. FBMC has identified another vendor who is capable of providing direct pay parking and bus pass services. FBMC is planning to construct their own reimbursement component. This will give them the ability to more closely monitor the program and to better respond to and solve problems as they occur. The transition is targeted to occur in late summer or early fall.